

## **Excess Unit Fee Discussion**

City of Alameda and U.S. Navy

December 15, 2021

### Alternatives to Current Excess Unit Fee Structure

As discussed with Navy staff in recent months, the City of Alameda has an interest in seeing more market rate residential units developed at Alameda Point than the 2,006 contemplated in the most recent amendment to the Memorandum of Agreement. The City's financial analysis has forecasted that no additional housing can be built while carrying the cost of the Excess Unit Fee. The need to increase housing production at Alameda Point is due to factors such as:

- An exacerbated housing crisis that has caused a high Regional Housing Needs Assessment production goal to be assigned to the City
- The need for more market rate housing to support the construction of additional affordable housing projects
- Escalating infrastructure and development costs that have proven extremely challenging for developers who have built or are planning to build at Alameda Point

In our previous discussion, Navy staff expressed concern about the potential for a City windfall enabled by a no-cost conveyance following capitally intensive Navy remediation efforts. The City would like to discuss a few concepts for an alternative fee structure that could be fair for both parties while providing further incentives to the parties. All deal terms will be subject to the direction and approval of the City Council before being finalized. Some alternatives are listed below.

- **Fee Payment from Land Sale Proceeds:** Currently, the fee is a condition of any market rate housing transaction as the units come online. As an alternative, the City would like to discuss making the Excess Unit Fee payable if the City is able to generate cash proceeds from land sales for market rate housing. Currently, land has traded from City to developers for in-kind consideration, with the condition of infrastructure delivery by the developer. To the extent the City is able to deliver infrastructure in the future without assistance from developers and can sell parcels for cash, the City could consider a concept where it pays the Excess Unit Fee from those proceeds. This would allow the Navy to participate in the upside of parcel sales, without preventing housing from being built.
- **Revenue Sharing Participation:** As another alternative to the up-front Excess Unit Fee, the City could include the Navy in revenue sharing. As noted above, although the City is not currently trading land at Alameda Point for cash but rather as in-kind transactions in exchange for infrastructure improvements, at Site A (and contemplated on future deals), the City has a revenue sharing agreement allowing it to participate in revenue if the project achieves a high

internal rate of return. In lieu of the Excess Unit Fee, the City could share its some form of excess revenue with the Navy.

- **Pre-payment of Fee:** Currently, with market rate housing unable to shoulder the Excess Unit Fee, if no market rate housing is built, this fee will never be paid. One alternative could be discounting the current fee for the uncertainty of future development and paying a discounted fee up-front for a certain number of units. This would enable the City to begin planning and development on new projects that would otherwise be infeasible, potentially accelerating housing development.
- **Re-calculation of Fee:** This alternative could change the calculation of the fee in such a way that indexes the fee with development costs rather than home prices. Because the fee is indexed to home prices, the impact of the fee is hardest during the peak of the development cycle. In addition, trends such as cap rate compression are raising prices and narrowing the developer's spread. Indexing the fee instead to a measure such as the consumer price index or the Engineering News-Record Construction Cost Index could help make it more manageable.

City staff are looking forward to working together with the Navy to problem solve and enable continued reuse of NAS Alameda. We thank Navy staff for their thoughtfulness, consideration and continued partnership, as well as the Navy's willingness to have this conversation with the City.